GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:3945
ANSWERED ON:22.08.2003
NPAS OF BANKS
UMMAREDDY VENKATESWARLU

Will the Minister of FINANCE be pleased to state:

(a) whether the World Bank has cautioned the Government that bank and financial institutions will be de-stabilised if non-performing assets continue to grow;

(b) if so, the details of the observations made by the World Bank; and

(c) the reaction of the Union Government thereto ?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRIANANDRAO V. ADSUL)

(a)&(b): The World Bank mission conducted the final review of performance of six participating Banks viz. Allahabad Bank, Bank of India, Dena Bank, Indian Bank, Indian Overseas Bank and Syndicate Bank, under the Financial Sector Development Project in October, 2001. The mission, in its report dated 17.04.2002 observed that despite efforts to clear up portfolio of existing NPAs, the level of NPAs remained high, as fresh NPA`s have arisen, partly due to downturns in industry and infrastructure sectors to which Public Sector Banks have large exposure. The mission was concerned that the growth had taken place at the expense of credit quality and could lead to further NPAs. The observation of World Bank mission was confined to six Public Sector Banks only.

(c): Government of India and Reserve Bank of India have advised the banks and financial institutions to take several steps for recovery of dues such as evolving and implementation of recovery policy by banks, filing of suits with civil courts, filing cases with Debt Recovery Tribunals (DRTs), compromise settlement through Settlement Advisory Committees, Lok Adalats and monitoring and follow up of NPAs at various levels. Credit Information Bureau has also been setup to disseminate information on borrowers to the banks. Corporate Debt Restructuring (CDR) scheme has been put in place to provide a transparent mechanism for restructuring of corporate dsbts of viable entities facing problems due to internal and external factors. A company viz. `Asset Reconstruction Company (India Ltd.)` has been incorporated under the Companies Act, 1956. `The Securitization & Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002` has been enacted to facilitate foreclosures and enforcement of securities in cases of default, in order to enable the banks and financial institutions to realize their dues. RBI has issued revised guidelines for compromise settlement of chronic NPAs of Public Sector Banks on 29 January, 2003. These guidelines will cover all NPAs in all sectors irrespective of the nature of business, which have become doubtful or loss as on 31 March 2000 with outstanding balance of Rs. 10.00 crore and below.